(April 26, 2009) Southtown Star: Paying 27 percent on a credit card

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Phil Kadner

A few months back, a young bank clerk was telling me how I could earn 2.75 percent interest on a certificate of deposit.

I wasn't taking notes, but the pitch went something like this:

If I were willing to invest my money for 36 months, if I also opened a new checking account, if I switched my mortgage over to the bank, and if I was willing to name the financial institution as a beneficiary in my will, I could qualify for the "manager's special" of 2.75 percent.

A year ago, I would have laughed at such an offer.

But I recently discovered that by cleverly investing my 401(k) money, I had succeeded in losing only 2 percent of my retirement savings in the past quarter. So anything that now promised a positive return seemed like, well, money in the bank.

Imagine my surprise then to learn that credit card companies want 27 percent interest on their money.

Interest rates on credit cards are doubling and tripling. Much of that money is coming from people who lost their jobs. People who can't get a loan from a bank because they're a bad credit risk.

As I researched this story, I discovered that banks often sell their credit card debt to investment companies.

Remember the home loan crisis? Remember how lending institutions gave money to people whom they knew couldn't afford to make the interest payments? The financial institutions then bundled their bad loans and sold them all over the world. That caused a giant economic crisis when housing prices collapsed and people lost their homes.

"Stupid people," many folks said. "What did those homeowners expect when they took out loans they couldn't afford?"

The guys on Wall Street and at Chicago's Board of Trade were especially hard on those homeowners, saying they didn't want the government paying for their mortgages.

Of course, that was after the federal government bailed out Wall Street and the investment houses.

"I've talked to people about the potential impact of a credit crisis, and while some experts believe it could happen, others seem to think that even if it does it won't have as big of an impact on the economy because the loans aren't for as much money," said U.S. Rep. Daniel Lipinski (D-3rd), of Western Springs. "But I worry that some banks may now be in such bad shape that it wouldn't take as much to tip them over."

Lipinski supports a credit card bill of rights that recently passed out of a House committee. While he said it's unlikely that Congress ever would set a ceiling on credit card interest rates, there are some things it can do to help consumers.

The measure under consideration would require credit card companies to give consumers up to 45 days' notice of any interest rate increases so they could pay off their card balances before rates went up.

"Interest rate hikes on existing balances shouldn't be subject to any increase," Lipinski said. "It just doesn't seem fair to me."

Among other things, the bill would end penalties on credit card holders who pay on time and require companies to let consumers set their own fixed credit limit.

President Barack Obama met last week with credit card company executives and told them he supports such reforms, along with eliminating the fine print in credit card contracts. According to news reports, the executives didn't react very well.

Sometimes you've got to wonder if we're all living in the same country. These are really tough economic times.

And you would think, given the decrease in consumer spending, it might be a good thing for the country if credit card companies actually cut interest rates.

How about a commercial that said, "We know millions of Americans are in trouble, and we're all in this together. So until we pull out of his problem, we're limiting our interest rates to 5 percent.

"And if you can prove you lost your job, we're not going to charge you interest on existing balances for three months."

Wouldn't that be a nice thing?

A colleague who has more business savvy than I do said that would be a very bad thing.

Higher interest rates on credit cards mean more money for banks to loan to businessmen and home buyers, and that's good for the economy, he said. And higher interest rates may stop people from spending money they don't have, he said.

Here's what I know.

Credit card debt has increased by 25 percent in the past 10 years, reaching $963 billion in January.

According to The Associated Press, credit card debt last year averaged $10,679 per household.

Now the banks want to double and triple the interest rates on credit cards.

That's not good. And it ain't right.